

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 OPIC-03 DOE-15 SOE-02 EB-08 COME-00
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FM AMEMBASSY ANKARA
TO SECSTATE WASHDC IMMEDIATE 2467
INFO AMCONSUL ADANA
AMCONSUL ISTANBUL
AMCONSUL IZMIR

C O N F I D E N T I A L SECTION 1 OF 2 ANKARA 4861

E.O. 11652 GDS
TAGS: ENRG, EFIN, EIND, BDIS, TU
SUBJ: TURKEY MAKES MOBIL AN OFFER IT CAN'T REFUSE

REF: (A) ANKARA 4583, (B) ANKARA 4483, (C) ISTANBUL A-6

SUMMARY: MOBIL OIL HAS DECIDED TO SELL ITS 50 PER CENT INTEREST IN THE ATAS REFINERY TO THE TURKISH GOVERNMENT RATHER THAN TO TRY TO CONTINUE ITS REFINERY OPERATIONS. MOBIL HOPES THAT IT WILL BE ABLE TO NEGOTIATE AN AGREEMENT WHICH WILL SATISFACTORILY RESOLVE ITS DISPUTES AND CREATE ACCEPTABLE CONDITIONS FOR THE FUTURE OPERATIONS OF ITS EXPLORATION, PRODUCTION AND DISTRIBUTION ACTIVITIES IN TURKEY. THE GOVERNMENT'S RESPONSE TO MOBIL'S PROPOSAL IS EXPECTED WITHIN A WEEK. END SUMMARY

1. IN RESPONSE TO PRESSURE FROM THE ECEVIT ADMINISTRATION, MOBIL OIL HAS DECIDED TO BEGIN NEGOTIATIONS WITH THE TURKISH GOVERNMENT TO SELL ITS 51 PERCENT INTEREST IN THE ATAS REFINERY TO THE STATE-OWNED TURKISH PETROLEUM COMPANY (TPAO). MOBIL/TURKEY PRESIDENT MARC CASANOVA TOLD EMBOFFS HIS COMPANY HAD DECIDED THAT ITS
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INTERESTS WOULD BE BEST SERVED BY CHOOSING "VOLUNTARILY" TO WITHDRAW FROM REFINING OPERATIONS IN TURKEY.

2. AS REPORTED IN REF A, ENERGY MINISTER DENIZ BAYKAL OFFERED MOBIL ONLY TWO SOLUTIONS TO THE COMPANY'S PROBLEMS IN TURKEY: (1) A LONG, MESSY LEGAL FIGHT OVER CANCELLATIONS OF MOBIL'S REFINING LICENSE FOR ITS

ALLEGED FAILURE TO COMPLY WITH TERMS OF TURKEY'S PETROLEUM LAW, OR (2) VOLUNTARY DIVESTITURE OF ITS REFINERY OPERATIONS IN TURKEY ON TERMS IT PROMISES WILL BE SATISFACTORY TO THE COMPANY.

3. CASANOVA PRESENTS A SOMEWHAT LESS OPTIMISTIC INTERPRETATION OF JUNE 12 MEETING BETWEEN ECEVIT, BAYKAL, FINANCE MINISTER MUEZZINOGLU THAN AT FIRST APPEARED TO BE THE CASE (REF B). CASANOVA SPECULATES THAT ECEVIT TOLD BAYKAL AT THAT MEETING TO FIND AN AMICABLE SOLUTION TO THE MOBIL/ATAS PROBLEM THAT DID NOT INVOLVE NATIONALIZATION OR SEIZURE. CASANOVA BELIEVES THAT ECEVIT IS BOXED-IN BY THE IDEOLOGICAL COMMITMENT OF THE REPUBLICAN PEOPLE'S PARTY (RPP) LEFT-WING TO NATIONALIZE THE ENERGY AND MINING SECTORS, AND THAT FAILURE TO GO ALONG WITH BAYKAL ON THIS ISSUE COULD COST THE PRIME MINISTER THE SUPPORT OF SOME 20-30 LEFT-WING RPP DELEGATES.

4. CASANOVA SAID THAT IN CONSIDERING THE ALTERNATIVES, MOBIL BELIEVED THAT IF THEY CHOSE OPTION ONE, TURKEY WOULD PROBABLY NOT NATIONALIZE THEM, BUT THE COMPANY COULD NOT OPERATE EFFECTIVELY. MOBIL DECIDED TO ACCEPT OPTION TWO AND HAS PROPOSED TO ENTER NEGOTIATIONS WITH THE GOT ON THE FOLLOWING TERMS:

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-- MOBIL AGREES TO SELL ITS 51 PERCENT INTEREST IN THE ATAS REFINERY TO TPAO AT FAIR MARKET VALUE, TAKING ACCOUNT OF THE AGE OF THE PLANT AND ITS EXPECTED USEFUL LIFE;

-- MOBIL WILL EXTEND A \$110 MILLION LOAN TO THE CENTRAL BANK FOR SEVEN YEARS WITH A THREE-YEAR GRACE PERIOD, THEREBY REFINANCING TURKEY'S ARREARS TO THE COMPANY.

5. IN RETURN FOR THESE POSITIVE GESTURES ON MOBIL'S PART, THE COMPANY EXPECTS THE TURKISH GOVERNMENT TO:

--GUARANTEE THAT THE PROCEEDS OF THE SALE AND THE BALANCE OF ANY IMPORTED CAPITAL CAN BE REMITTED TO THE PARENT COMPANY;

-- RELEASE MOBIL FROM ANY OBLIGATION TO IMPORT/ CRUDE OIL;

-- SIGN A LONG-TERM CONTRACT AGREEING TO SUPPLY MOBIL'S MARKETING COMPANY WITH REFINED PRODUCT FROM TPAO;

-- GUARANTEE THAT TPAO WILL PURCHASE CRUDE
FROM MOBIL'S LOCAL PRODUCTION OPERATIONS AT A FAIR PRICE;

-- GUARANTEE THE TRANSFER RIGHTS OF MOBIL'S
EXPLORATION AND PRODUCTION COMPANIES; AND

-- RELIEVE MOBIL EXPLORATION OF THE OBLIGATION
TO PAY THE GOT 670 MILLION TURKISH LIRA WHICH THE
SHORT-LIVED 1977 ECEVIT GOVERNMENT CLAIMED WERE
EXCESS REVENUES GENERATED BY MOBIL'S DOMESTIC CRUDE
PRODUCTION IN 1973-74.

6. CASANOVA PRESENTED THIS RESPONSE ORALLY TO ENERGY
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UNDER SECRETARY ATILA CANDIR ON JUNE 28 AND TO
FOREIGN MINISTER OKCUN THE MORNING OF JUNE 29.
CASANOVA PLANS TO GIVE THE GOVERNMENT A DRAFT AGREEMENT
IN PRINCIPLE ON JUNE 30. THE MINISTER OF ENERGY IS
EXPECTED TO REACT TO MOBIL'S PROPOSAL WITHIN A WEEK
AND MOBIL EXPECTS TO BEGIN NEGOTIATIONS WITH THE GOT
IN ABOUT TWO WEEKS. MOBIL BELIEVES THAT FINAL AGREEMENT
COULD BE REACHED IN 90 DAYS.

7. CASANOVA SAID THAT CANDIR WAS SURPRISED THAT ONE
OF MOBIL'S CONDITIONS WAS TO END ITS OBLIGATION TO
IMPORT CRUDE. OKCUN EVEN REPEATEDLY ASKED CASANOVA
TO IMPORT TWO MONTH'S SUPPLY OF CRUDE TO KEEP ATAS
OPERATING AT CAPACITY DURING THE HARVEST SEASON.

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C O N F I D E N T I A L SECTION 2 OF 2 ANKARA 4861

SINCE THE TURKS WERE NOT PREPARED TO PAY FOR THESE IMPORTS,
CASANOVA'S RESPONSE WAS A FLAT NO. HIS COMPANY DOES NOT
PLAN TO INCREASE ITS EXPOSURE IN TURKEY BY ONE DOLLAR.

8. CASANOVA SAID CANDIR HAD NOT YET APPROACHED
MOBIL'S PARTNERS (SHELL AND BP) ABOUT SELLING OUT,
WANTING FIRST TO GET MOBIL'S AGREEMENT. HE SAID BP WAS
READY TO SELL OUT BUT THAT SHELL STILL WANTED TO
MAINTAIN ITS INTEREST. CASANOVA EXPECTED THAT SHELL
WOULD EVENTUALLY COME TO TERMS SINCE HE BELIVES THAT
TURKEY DOES NOT WANT TO OPERATE THE REFINERY WITH
FOREIGNERS HAVING EVEN A MINORITY INTEREST.

9. CASANOVA EXPECTS THE SETTLEMENT TO BE IN THE
NEIGHBORHOOD OF \$40 MILLION FOR ALL OF THE PARTNERS,
MOBIL'S SHARE BEING JUST OVER \$20 MILLION. HE
ESTIMATES MOBIL'S ORIGINAL INVESTMENT IN ATAS WAS
ABOUT \$50 MILLION BUT CAUTIONED THAT IT IS DIFFICULT
TO COMPARE CURRENT VALUES WITH THOSE EXISTING AT THE
TIME OF THE INVESTMENT.
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10. CASANOVA THINKS THAT THE TPAO TAKE-OVER OF ATAS
COULD POTENTIALLY BE A GOOD DEAL FOR TURKEY. THEY WILL
GET A WELL-RUN PLANT WITH ONLY 282 EMPLOYEES (COMPARED
WITH OVER 1500 AT TPAO'S ALIAGA REFINERY IN IZMIR). IT
WOULD COST TURKEY TODAY \$300 MILLION TO BUILD A COMPARABLE
100,00 BARREL-PER-DAY REFINERY. WITH AN INVESTMENT
OF ONLY \$150 MILLION, TURKEY COULD EXPAND PRODUCTION
CAPACITY TO 200,000 BPD.

1. COMMENT: WHILE THE GOVERNMENT MAY END FOREIGN CONTROL
OF PETROLEUM REFINING, IT HAS NOT HAD AS MUCH SUCCESS IN SEC-
URING SUPPLIED OF CRUDE OIL ADEQUATE TO KEEP ITS REFINERIES OP-
ERATING AT CAPACITY. TURKEY'S CRUDE SUPPLIERS ARE ONLY PROVIDING OIL
ON A CASH BASIS AND THE FOREIGN EXCHANGE SQUEEZE IS BEGINNING
TO HURT. THE COMBINATION OF LOW STOCKS OF IMPORTED CRUDE
AND A RECENTLY ENDED 33-DAY STRIKE OF DOMESTIC CRUDE PRODUCTION
AND DISTRUBUTION FACILITIES, HAS CREATED WIDESPREAD GASOLINE

SHORTAGES. MINISTER OF STATE HIKMET CETIN HAS JUST FLOWN OFF TO IRAN WITH THE HOPE OF NEGOTIATING A CREDIT PURCHASE OF ONE MILLION TONS OF CRUDE. IF SUCCESSFUL, STOPGAP MEASURES LIKE THIS MAY KEEP THE ECONOMY LIMPING THROUGH THE SUMMER, BUT FUEL SHORTAGES SHOULD BECOME COMMONPLACE. WITH THE MOBIL DECISION TO SELL, THE RPP LEFT-WING WILL NO LONGER BE ABLE TO BLAME THE TROUBLES OF THE ECONOMY ON THE REFUSAL OF FOREIGN OIL COMPANIES TO PROVIDE CRUDE SUPPLIES.

12. TECHNICALLY SPEAKING, THE GOVERNMENT HAS NOT EXPROPRIATED ATAS. PRIME MINISTER ECEVIT HAS AVOIDED AN UNPLEASANT WRANGLE WITH MOBIL. BUT THE REFINERY WILL BE NATIONALIZED AND MOBIL'S DEPARTURE WILL NOT BE SEEN BY ANYBODY AS "VOLUNTARY". THE COMPANY WILL AGREE TO SELL ONLY BECAUSE IT HAD NO EXPECTATION THAT IF IT STAYED, THE INTOLERABLE FINANCIAL BURDENS

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FORCED UPON IT WOULD BE LIFTED. COMING AT A TIME WHEN THERE ARE SIGNS THAT THE SEVERE FOREIGN PAYMENTS IMBALANCE IS FINALLY CAUSING THE GOVERNMENT TO THINK ABOUT THE USEFULNESS OF SELECTED FOREIGN INVESTMENT AS A SOURCE OF DEVELOPMENT CAPITAL AND NEEDED EXPORT POTENTIAL, THE MOBIL EVENT MAY REINFORCE THE WIDELY HELD VIEW THAT TURKEY IS NOT A RELIABLE HOST FOR FOREIGN INVESTMENT OF ANY KIND.

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